

Piramal Glass Ltd. (PGL)

No. of Shares (Crore)	8.04
Face Value (Rs)	10.00
Mkt. Cap (Rs Crore)	1059.26
Price (06/05/2011)	131.70
Book Value (Rs)	41.61
P/BV	3.17
BSE Code	532949
NSE Code	PIRGLASS
Bloomberg	PIRA IN
Reuters	PRML.BO
Daily Vol. (Monthly Avg.)	144233
52 W H/L (Rs)	142.00 / 79.15

Shareholding pattern	%
Promoters	72.68
MFs / Banks / FIs	3.25
Foreign	2.44
Govt. Holding	0.00
Non-Promoter Corp.	9.59
Total Public	12.04
Total	100.00

(As on 31st Mar, 11)

Recommendation

BUY

Analyst

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Company Brief

Piramal Glass Limited is a leading global manufacturer of glass containers for Cosmetics and perfumery (C&P), Pharmaceutical and Specialty food and beverages (SF&B) industries. It has a global footprint with operations spread across three countries: India, USA and Sri Lanka with total manufacturing capacity of 1,245 mtpd.

Highlights

- ⇒ PGL has a well diversified business model with dominating position in most of segments enabling it to grow at a healthy pace and also hedges it against slowdown in any particular sector or geography.
- ⇒ Substantial chunk of capital investment incurred over last few years has started reaping fruits and provides a strong platform for growth.
- ⇒ Shifting focus from commoditised glass packaging business to high end segment of C&P business will lead to improvement in realisations and provide stability to revenues.
- ⇒ Increasing the C&P capacity by 210 tpd will enable it to grow C&P revenues at a CAGR of 24% over FY11-13E and increase its contribution to overall revenues by 800 bps to 57% in FY13.
- ⇒ Enrichment of sales mix by increasing its contribution from high margin C&P segment and shifting of C&P plant to India will lead to 33% CAGR (FY11-13E) improvement in profitability.
- ⇒ Being the sole Asian player in the premium C&P business, Piramal Glass has limited competitive threat. Also with access to premium clientele, stringent eligibility criteria and high gestation period, it will continue to maintain its dominant position.
- ⇒ Piramal Glass has been steadily strengthening its balance sheet by repaying debt and reducing interest cost led by turnaround in business and robust operating cash flows.
- ⇒ *At the CMP of Rs 132, the stock trades at a P/E multiple of 7.9 x and 6.4 x FY12E and FY13E earnings respectively. We recommend a "BUY" with a price target of Rs 167, assuming a P/E multiple of 9 x average of FY12E & FY13E earnings of Rs 18.6, an upside of 27% from the current levels, over a period of 12 months.*

Rs in Crores

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	1008.84	1103.91	1218.46	1403.92	1634.54
Other Income	20.87	22.07	21.54	21.90	22.40
PBIDT	94.87	204.21	306.67	372.04	420.08
Net Profit	(102.50)	4.45	93.02	133.44	165.28
EPS	(57.01)	0.55	11.56	16.59	20.55
EPS Growth (%)	(348.89)	100.97	1992.22	43.45	23.86
P/E (x)	NA	240.79	9.76	7.94	6.41
P/BV (x)	1.05	3.27	2.71	2.26	1.67

Company Background

Piramal Glass Limited (PGL), part of cash rich Piramal group company incorporated on Feb 6, 1998, is a leading specialty glass manufacturer for the cosmetic and perfumery (C&P), pharmaceutical, and specialty food and beverage (SF&B) industries with an installed capacity of 1,245 metric tonnes per day. PGL is a one-stopshop as it offers an entire gamut of flaconage solutions under one umbrella, which includes full bottle design capabilities, in-house mould design, CNC machines for mould manufacturing, high quality glass manufacturing and dedicated ancillaries for decoration and accessories like caps, cartons and brushes.

The glass containers manufactured in C&P are used to fill nail polish, perfumes, foundation and attars. Pharmaceutical glass container division manufactures amber bottles, amber and flint vials for liquid oral formulations. Specialty food and beverages division caters to market for wine, liquor and food.

The company has a global footprint with manufacturing locations in three countries; India, US and Sri Lanka with India contributing to 56%, USA contributing to 30% and Sri Lanka contributing to 14% of consolidated revenues in FY11. C&P, Pharma and SF&P each accounts for around 49%, 28% and 23% of its consolidated revenues in the last financial year.

PGL is the market leader in SF&B segment in Sri Lanka controlling ~91% of the market share. PGL commands ~5% market share in world premium C&P segment and also enjoys market leadership in color cosmetics segment (eg. Nail polish) with around 50% market share. Its customers include several reputed brands like L'Oreal, Revlon, Avon, etc. It holds leadership position in Indian pharmaceutical market with 35% market share.

Business segment review

Particulars	C&P	Pharma	SF&B
Product portfolio	Perfumery & Colour cosmetic bottles	Vials / bottles in amber & flint	Speciality bottles for boutique wine & liquor
Capacity (tpd)	600	395	250
Market share	Global market share: 5%	Leading player in India with 35% market share	Market leader in Srilanka with 91% share
	Global leader in colour cosmetics (nail polish bottles) with 50% market share	Among top 5 global players in USP Type I glass	
Revenue (FY11)	603 cr	342 cr	274 cr
% Contribution	49%	28%	23%
EBIDTAM (%)	~30%	~22%	~25%
Revenue CAGR (FY05-11)	35%	11%	30%
Key markets	India, Europe, USA	India, USA	USA, Srilanka, India
Key customers	P&G, L'Oreal, Estee Lauder, Avon, Revlon, Unilever etc	Merck, Wyeth, GSK, Ranbaxy, Dr Reddy's, Cipla etc	Diageo, UB Group, Lion Stout etc
Key competitors	Zignago, SGD	Hindustan National Glass, HSIL	Saver Glass

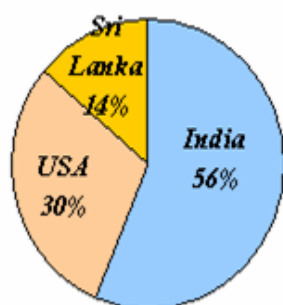
Source: Company, CD Research

Investment Arguments

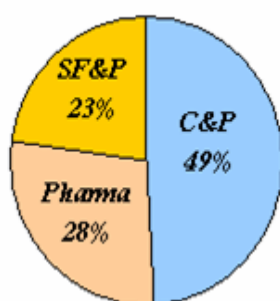
Diversified business model

PGL has a well diversified business model with dominating position in most of the product segments. The company has diversified product portfolio with presence across cosmetic and perfumery (C&P), pharmaceutical, and specialty food and beverage (SF&B) segment and its sales are spread across different geographies and multiple manufacturing locations across three different nations.

Geographical break-up



Segmental break-up



Source: Company

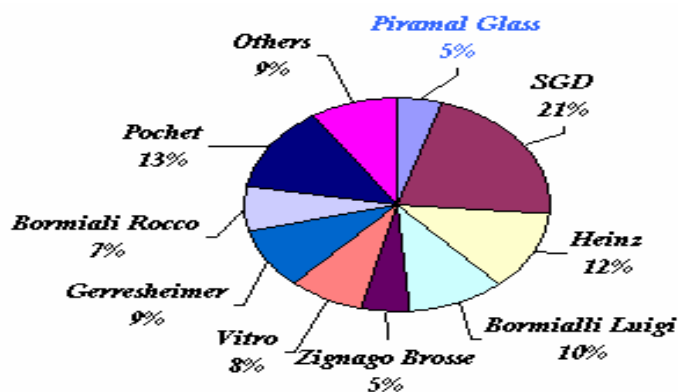
PGL has a global footprint with manufacturing locations in three countries; India, US and Sri Lanka manufacturing different type of glass like C&P, Pharmaceutical and SF&B with India contributing to 56%, USA contributing to 30% and Sri Lanka contributing to 14% of consolidated revenues in FY11. C&P, Pharma and SF&P each accounts for around 49%, 28% and 23% of its consolidated revenues in the last financial year.

Diversified business model enables the company to grow at a healthy pace and also hedges it against slowdown in any particular sector or geography.

Cosmetics & Perfumery (C&P) – Segment on the boil

PGL being one of the leaders in C&P glass container segment is all set to benefit from the everlasting demand for its product. Since the glass packaging is used for products like nail polish, make-up foundations, skin creams and perfumes all being beauty products, increasing fashion consciousness coupled with awareness are the critical drivers for this industry.

C&P Market share.....



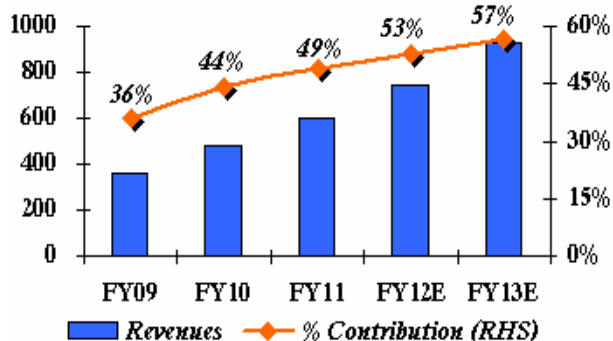
Source: Company

The C&P global market which is estimated to be \$ 2.3 billion is growing at 5% CAGR with demand in emerging market growing at over 10%. **We believe emerging economies will drive the growth of this industry basically due to a growing young population, working women and their increasing disposable income.** The availability of major international brands and setting up of large retail stores across the country will also provide fillip to the demand. **Piramal will be one of the prime beneficiaries of this increasing demand as it provides glass containers across all segments of the market i.e. both Mass and Premium.**

PGL is the largest manufacturer of the Premium segment in Asia with a market share of 5% Global C&P market and is also among global leader in producing color cosmetic bottle. The company has established strong relationship with nearly 18 of the top 20 major clients in the high end segment and with client's annual requirement remaining robust, the company has significant scope to scale the business.

Shifting focus to high end C&P segment to drive the growth

Increasing share of C&P segment



Source: Company, CD Research

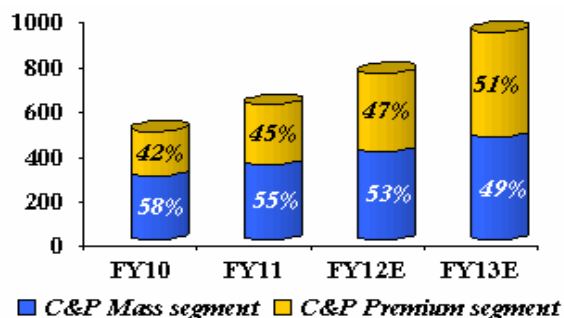
As a part of business strategy, Piramal Glass is steadily shifting its focus from commoditised glass packaging business of pharma to high end segment of C&P business that offers superior realization rates and stable revenues. C&P segment commands EBITDA margin of ~30% as compared to EBITDA margin of ~22% in pharmaceutical and ~25% in specialty food and beverages segment. Share of C&P segment to total sales has increased from 36% in FY09 to 49% in FY11.

C&P being a high value business commanding better realization and higher EBITDA margin, we believe PGL's strategy to change the revenue mix will drive significant growth going ahead.

Piramal Glass is converting 75 mtpd of pharma capacity into C&P segment and realigning its existing capacity in Gujarat. It is also planning a green field capacity expansion of 160 mtpd in India by FY12 to meet the increasing demand from C&P segment.

Moreover, Piramal currently derives 55% of total C&P sales from mass and rest 45% from premium segment. Going forward the company intends to move up the value chain by increasing share of premium segment to 55%-60%, which will lead to increase in revenues as premium segment enjoys considerably higher realisations (around twice) than the mass segment.

Share of premium segment - Increasing



Source: Company, CD Research

As a result we believe C&P glass packaging division to drive the growth of PGL.

This segment has been growing at a CAGR of 19% over the last 5 years and we expect the revenues of this segment to increase at a 24% CAGR to Rs 927 cr over FY11-13E.

The premium C&P segment is expected to grow at 31% over the same period leading to widening EBITDA margin bracket. The segment's contribution to total sales will increase by 800 bps to 57% in FY13E from 49% in FY11.

Major capex over – To reap benefits going ahead

Over the past few years, PGL has been investing heavily in terms of acquisition of a loss making company in the US (Rs 350 cr) and the substantial capital investment in expansion and capacities both in Sri Lanka and India. All this has started reaping fruits and will provide a strong platform for growth in the coming years. The US acquisition has started reporting profits in the last financial year.

Now to meet the increased demand in the C&P segment, PGL is incurring Rs 260 cr over the next two years to add 210 tons per day (tpa) of manufacturing capacity to its existing capacity of 1245 tpd. The company expects to fund this capex mainly through internal accruals.

PGL is setting up 160 tpd green-field plant at a cost Rs 100 cr by FY12. Further company is realigning its four furnaces of existing pharma capacities to premium C&P segment thereby adding 50 tpd at a cost Rs 160 cr.

This will result in steady growth in topline as well as improve the margins of the company.

To shift C&P production capacity to India - considerable saving in cost

PGL works on a strategy of developing a strong front end in western market while building a robust manufacturing base in low cost regions. Currently PGL's wholly owned subsidiary in US operates two furnaces with combined capacity of 195 tpd, catering to SF&B and C&P segments. The company intends to shift 85 tpd of C&P capacity to India as employee cost in US is much higher than that of India.

Cost savings vs peers in Europe (%)

Cost	India	France
Raw Material	6	6
Packing Material	4	4
Energy	8	8
Labour	4	53
Mold Cost	1	4
Depreciation	7	12
Overheads	10	12
Freight	6	1
Total	46	100

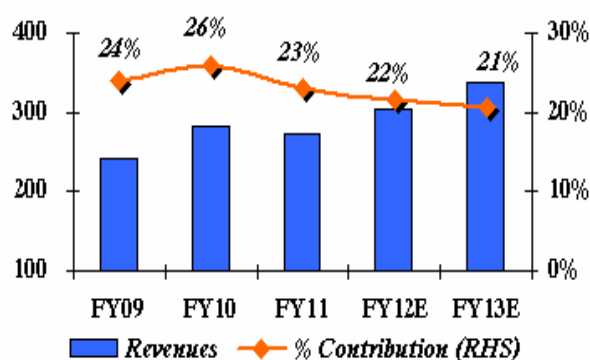
Source: Company

Going ahead we expect employee cost to remain flat with an increase of mere 2.7% CAGR till FY13E on the back of decline in percentage of employee cost as percentage of sales by 444 bps from ~19.4% in FY11 to ~15% in FY13E.

This will lead to considerable saving in operating cost even after considering the freight cost. In fact the total cost of production in India, where manpower is among the cheapest in the world, is less than 50% of that in France and almost half of that in the US (Source: Mckinsey).

This will lead to decline in employee cost thereby improving margins. Moreover this will also increase PGL's competitive position as with manufacturing facilities in India and Sri Lanka, and it will be able to produce glass at significantly lower costs than its competitors in other parts of the world and deliver a sustainable cost advantage to customers.

Speciality Food & Beverages – on a steady growth path



Source: Company, CD Research

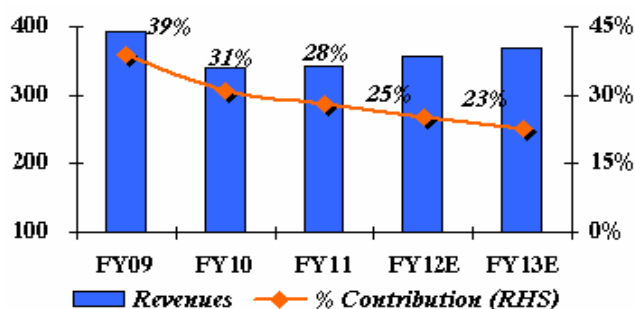
The Speciality Food & Beverages division caters to the niche market for high end liquor, wine and food which are often unique in design and decoration from its US & Sri Lanka operations. Due to the heavy weight of the bottles and higher freight costs, the SF&B remains largely a regional market.

In Sri Lanka, the company is the single source supplier in the domestic market with 91% market share. PGL plans to export specialty value added liquor and boutique wine bottles to neighboring markets like India, Australia and South Africa to improve realization rates.

The SF&B segment constitute 23% of company sales and is expected to grow at 11% CAGR over FY11-13E.

Pharma segment - Focusing more towards high value-added exports

PGL is the leader in the Indian market with a market share of 35% supplying glass containers to all the major multinational and Indian pharma companies. Currently the market for glass packaging for pharma industry in India is passing through a structural shift from glass bottles to PET substitution mainly for oral dosage syrups and formulations leading to decline in demand for PGL's product in India. However its market is relatively stable globally with demand growing at around 5-10%. This has led Piramal to rationalize customer mix and shift from domestic to premium international market.



Source: Company, CD Research

The company has longstanding relations with international clients hence it would focus on the export business to mitigate the reducing domestic demand. Moreover PGL is also shifting its pharma capacities to premium C&P segment which will lead to further efficient utilization of capacities.

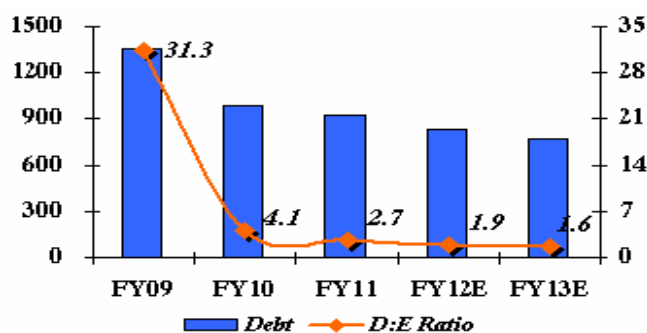
We expect revenues in this segment to grow at a CAGR of 4% over FY11-13E and its contribution to overall revenues is expected to reduce by 500 bps to 23% by FY13E.

High entry barriers provides significant competitive advantage

Piramal Glass is among top three glass bottles manufacturers in the world and is the sole player in Asia to service the premium C&P market. The US acquisition of Glass Group, has given PGL access to some of the top brands in premium segment and today it has several reputed brands like L'Oreal, Revlon, Unilever, etc as its customers. These brands have quite stringent eligibility criteria for its vendors which include environmental norms, constant copyright checks, design norms, design history, etc. We believe strict qualification norms serves as an entry barrier for new players who intend to enter the segment in the near future. Also the qualification for international brand has a gestation period of more than 4 years providing significant barriers of entry in the premium C&P market thereby eliminating the risk of competition.

De-leveraging balance sheet – D:E to move into comfortable zone

Strengthening balance sheet



Source: Company, CD Research

Piramal Glass has been steadily strengthening its balance sheet by repaying debt and reducing interest cost led by turnaround in business and robust operating cash flows.

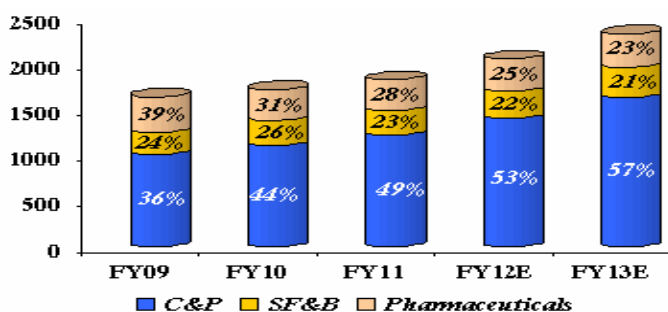
In the last financial year, the company has repaid a debt of Rs 62 cr and reduced interest cost by Rs 33 cr reducing the debt equity to 2.7x from 4.1x in FY10. Interest cost as a percentage of debt has moved down from 9% in FY10 to 7.6% in FY11.

The management expects to pay down substantial debt going forward and take the debt-equity ratio down to 1.5x by the end of FY13.

Sharp turnaround in performance

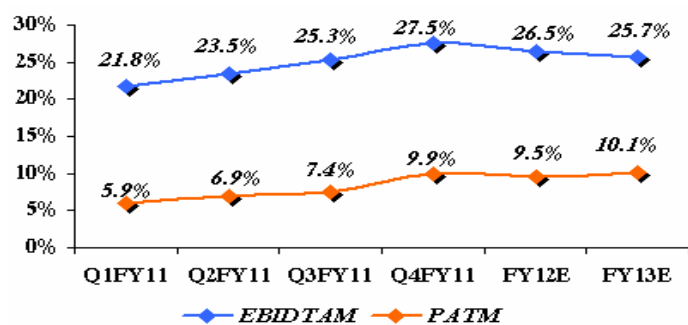
Piramal Glass has turnaround its operations in the last two years led by its strategy of shifting from the low end pharma segment to the high margin cosmetics and perfumery segment. Though revenue has grown at a mere CAGR of 10% over FY09-11 period however PGL has sharply turnaround from a loss of Rs 103 cr in FY09 to a profit of Rs 93 cr in FY11 helped by various business restructuring that the company undertook. C&P, SF&B and Pharma segment each contributed to 49%, 23% and 28% to the total consolidated revenues in the last financial year respectively.

C&P segment to drive revenue growth.....



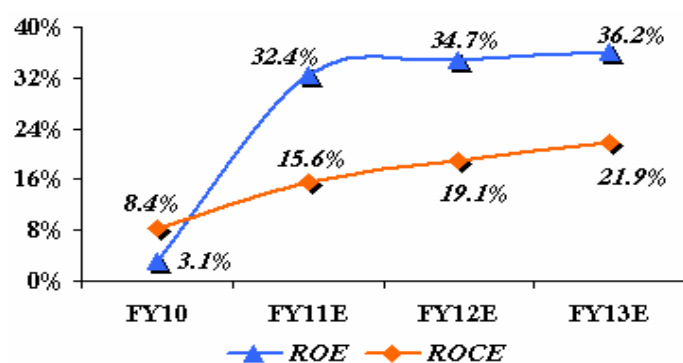
Going forward we expect revenues to grow at 16% CAGR over FY11-13E, with C&P revenues improving at 24% CAGR. Its contribution to total sales will increase by 800 bps to 57% in FY13E from 49% in FY11. Pharma segment is expected to grow at a CAGR of 4% over FY11-13E with its contribution declining by 500 bps to 23%. The SF&B segment is expected to grow at 11% CAGR and constitute 21% of company sales in FY13.

Sustaining margin pressure.....



Despite increasing contribution from high margin C&P segment, we have conservatively estimated the margins to cool down from 27.5% in Q4FY11 and to 25.7% in FY13 due to rising energy costs. The company procures natural gas, which is one of the key raw materials, from sources like GAIL and Gujarat Gas. Gujarat gas has increased the prices of natural gas by ~20% from April 2011. Also, the LNG prices have increased in the recent past. However, we believe, PGL has the ability to pass on the price rise in future, as it has done in Q4FY11 thereby protecting its margins.

Improving return ratios.....



Net profit is expected to grow at a CAGR of 33% helped by reducing interest cost as company goes on repaying its debt.

Return ratios will continue their improving trend as the company shifts to the high end premium C&P segment and goes on repaying debts from internal cash flows. D:E Ratio is expected to drop to 1.6x in FY13E from 2.7x in FY11 as a result of which ROE and ROCE will improve by 380 bps and 635 bps to 36% and 22% in FY13E respectively.

Source: Company, CD Research

Quarterly performance

Result Performance		In Rs Crores		
		Q4FY11	Q4FY10	% Chg.
Segment Sales -				
Cosmetics & Perfumery		162	134	20.90
Specialty Food & Beverage		17	31	(45.16)
Pharmaceuticals		150	119	26.05
Total Sales		328.86	283.55	15.98
Other Income		5.08	6.41	(20.75)
	Total Income	333.94	289.96	15.17
Total Expenditure		243.49	229.81	5.95
	PBIDT	90.45	60.15	50.37
Interest		18.91	17.70	6.84
	PBDT	71.54	42.45	68.53
Depreciation		27.40	26.39	3.83
	PBT	44.14	16.06	174.84
Tax		8.32	3.86	115.54
	PAT	35.82	12.20	193.61
Minority Interest & Extra-ordinary Items		3.11	0.75	314.67
	Net Profit	32.71	11.45	185.68
EPS (FV Rs 10)		4.07	1.42	185.68

Consolidated Financials

Profit & Loss		In Rs Crores				
		FY09	FY10	FY11	FY12E	FY13E
Year ended 31st March						
Net Sales		1008.84	1103.91	1218.46	1403.92	1634.54
Other Income		20.87	22.07	21.54	21.90	22.40
	Total Income	1029.71	1125.98	1240.00	1425.82	1656.94
Total Expenditure		934.84	921.77	933.33	1053.78	1236.87
	PBIDT	94.87	204.21	306.67	372.04	420.08
Interest		131.37	104.91	72.04	76.32	66.56
	PBDT	(36.49)	99.31	234.63	295.72	353.52
Depreciation		89.25	90.65	106.90	121.42	131.37
Tax		(18.59)	5.43	24.38	34.86	48.87
	PAT	(107.15)	3.23	103.35	139.44	173.28
Minority Int. & Extra-ordinary Items		(4.65)	(1.22)	10.33	6.00	8.00
	Net Profit	(102.50)	4.45	93.02	133.44	165.28
	EPS (Rs)	(57.01)	0.55	11.56	16.59	20.55

Balance Sheet					<i>In Rs Crores</i>
Year ended 31 st March	FY09	FY10	FY11E	FY12E	FY13E
SOURCES OF FUNDS					
Equity Share Capital	17.98	80.44	80.44	80.44	80.44
Reserves	25.37	159.45	254.28	352.91	400.03
Total Shareholders Funds	43.35	239.89	334.72	433.35	480.47
Minority Interest	44.73	37.62	49.88	55.00	60.00
Total Debt	1357.07	982.43	919.99	834.59	769.19
Total Liabilities	1445.15	1259.94	1304.59	1322.94	1309.66
APPLICATION OF FUNDS					
Gross Block	1405.15	1367.28	1484.10	1629.22	1739.22
Less: Accumulated Depreciation	448.95	525.19	632.09	753.51	884.88
Net Block	956.20	842.09	852.01	875.71	854.34
Capital Work in Progress	14.76	14.08	15.12	30.00	20.00
Investments	0.11	0.11	0.12	0.12	0.12
<u><i>Current Assets, Loans & Advances</i></u>					
Inventories	285.48	254.21	282.88	321.50	369.41
Sundry Debtors	268.81	263.52	277.93	294.82	335.08
Cash and Bank	11.85	7.10	13.26	14.15	16.50
Loans and Advances	76.65	62.47	93.26	82.83	89.90
Total Current Assets	642.79	587.30	667.33	713.30	810.89
<u><i>Less: Current Liabilities and Provisions</i></u>					
Current Liabilities	103.33	107.04	132.64	168.47	228.84
Provisions	56.11	65.28	83.06	112.72	131.86
Total Current Liabilities	159.44	172.32	215.70	281.19	360.69
Net Current Assets	483.36	414.98	451.63	432.11	450.20
Net Deferred Tax	(9.27)	(11.32)	(14.29)	(15.00)	(15.00)
Total Assets	1445.16	1259.94	1304.59	1322.94	1309.66

Key Financial Ratios					
Year ended 31st March	FY09	FY10	FY11E	FY12E	FY13E
Growth Ratios					
Revenue (%)	29.57	9.42	10.38	15.22	16.43
PBIDT (%)	(23.49)	115.25	51.55	21.32	12.91
Net Profit (%)	(348.89)	104.34	1992.22	43.45	23.86
EPS (%)	(348.89)	100.97	1992.22	43.45	23.86
Margins					
OPM Margin (%)	7.34	16.50	23.40	24.94	24.33
Net Profit Margin (%)	(10.16)	0.40	7.63	9.50	10.11
Return					
ROCE (%)	0.42	8.40	15.58	19.08	21.93
RONW (%)	(102.89)	3.14	32.38	34.75	36.17
Valuations					
Market Cap / Sales	0.06	0.66	0.75	0.75	0.65
EV/PBIDTA	14.45	8.27	5.92	5.05	4.31
P / E	NA	240.79	9.76	7.94	6.41
P / BV	1.05	3.27	2.71	2.26	1.67
Other Ratios					
Debt-Equity Ratio	31.30	4.10	2.75	1.93	1.60
Current Ratio	4.03	3.41	3.09	2.54	2.25
Interest Cover Ratio	0.04	1.08	2.77	3.28	4.34
Turnover Ratios					
Fixed asset turnover	1.10	1.23	1.44	1.63	1.89
Total asset turnover	0.75	0.82	0.95	1.07	1.24
Debtors turnover	4.29	4.15	4.50	4.90	5.19
Inventory turnover	4.05	4.09	4.54	4.65	4.73

Risk & Concerns

- ⇒ Volatile currency movements will impact the company as it derives around 50% of domestic revenues from exports.
- ⇒ Increase in raw material prices particularly gas price will negatively impact the margins of the company in case it is not able to fully pass on the price hike to end customers.
- ⇒ High dependence on C&P segment will impact the company in case of any downturn in C&P sales.
- ⇒ Glass packaging faces the risk of replacement by other packaging solutions such as plastic and other forms of packaging.

Valuation & Recommendation

The global market size of the glass packaging industry is currently valued at US\$30bn dominated by the moulded glass packaging industry to the extent of US\$28bn while the balance is being contributed by the tubular glass packaging industry. **With dominating presence in cosmetic and perfumery (C&P), pharmaceutical, and specialty food and beverage (SF&B) glass industries, the addressable market for Piramal Glass is ~20% of the moulded glass packaging market. PGL being among top three glass bottles manufacturers in the world will be able to capture most of the available opportunity.**

Shifting focus from commoditised glass packaging business of pharma to high end segment of C&P business will lead to improving realisations and stable revenues. Increasing capacity in the C&P segment by 210 tpd will lead to increasing contribution from this segment.

Being the sole Asian player in the premium C&P business, Piramal Glass has limited competitive threat. Also factors like access to premium clientele, stringent eligibility criteria and high gestation period, will allow the company to continue maintain its dominant position.

Shifting of C&P segment to India would lead to considerable saving in operating cost as well as improve its competitive position vis a vis global players, as cost of production is cheapest in the world. PGL has sharply turnaround from a loss of Rs 103 cr in FY09 to a profit of Rs 93 cr in FY11. We expect this momentum to continue going ahead

Revenue is expected to grow at 16% CAGR over FY11-13E, with C&P revenues improving at 24% CAGR and its contribution to total sales increasing by 800 bps to 57% in FY13E. Margin is expected to cool down from 27.5% in Q4FY11 and to 25.7% in FY13 due to rising energy costs. Net profit is expected to grow at a CAGR of 33% helped by reducing interest cost as company goes on repaying its debt. Return ratios will continue their improving trend as the company shifts to the high end premium C&P segment and goes on repaying debts from internal cash flows.

Given the robust sector outlook, dominant position in most of the segments and earnings growth visibility over the coming years, this stock seems a good buy.

At the current price of Rs 129, the stock trades at a P/E multiple of 7.9 x and 6.4 x FY12E and FY13E earnings respectively. With this backdrop we believe this to be an excellent opportunity for investors, we recommend a "BUY" on the stock with a price target of Rs 167, assuming a P/E multiple of 9 x FY12E & FY13E average earnings of Rs 18.6, an upside of 27% from the current levels, over a period of 12 months.

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